

**REPORT OF THE AUDIT OF THE  
FLOYD COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FLOYD COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Floyd County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances decreased by \$1,270,370 from the beginning of the year, resulting in a cash surplus of \$10,895,412 as of June 30, 2002. Of this cash surplus, \$8,333,282 is restricted for extinguishing outstanding bond issues. Operating revenues increased by \$5,201,685 from the prior year and operating disbursements increased by \$6,567,506.

#### **Debt Obligations:**

Total bond principal as of June 30, 2002, was \$26,215,000. Future collections of \$32,365,669 are needed to pay bond principal and interest.

The Floyd County Public Properties Corporation is liable for \$2,175,000 of First Mortgage Revenue Bond Anticipation Notes. Total principal and interest is due in October 2003.

Capital lease principal agreements totaled \$695,984 as of June 30, 2002. Future principal and interest payments of \$1,025,235 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

#### **Report Comments:**

- The Fiscal Court Should Have Required The Floyd County (Martin) Community Center To Submit Monthly Financial Statements And An Annual Financial Statement
- The Floyd County (Martin) Community Center Should Not Have Paid Bonuses



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Paul H. Thompson, Floyd County Judge/Executive

Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Floyd County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Floyd County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Floyd County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Floyd County, Kentucky, as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Paul H. Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2003 on our consideration of Floyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Floyd County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Have Required The Floyd County (Martin) Community Center To Submit Monthly Financial Statements And An Annual Financial Statement
- The Floyd County (Martin) Community Center Should Not Have Paid Bonuses

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 21, 2003



FLOYD COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Paul Hunt Thompson	County Judge/Executive
Gerald DeRossett	Commissioner
Ermal Tackett	Commissioner
Larry Stumbo	Commissioner

**Other Elected Officials:**

Keith Bartley	County Attorney
Roger Webb	Jailer
Chris Waugh	County Clerk
Douglas Ray Hall	Circuit Court Clerk
John K. Blackburn	Sheriff
Connie Hancock	Property Valuation Administrator
Roger Nelson	Coroner

**Appointed Personnel:**

David Layne	County Treasurer
Brett Davis	Deputy Judge/Executive
Donna Thompson	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

FLOYD COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,063,222	\$ 273,598	\$ 1,157,528	\$ 787,850
Investments				
Gas, Solid Waste, Detention Center				6,328,275
Justice Center Series A				312,319
Justice Center Series B				810,525
Fairgrounds and Convention Center				137
Bond Anticipation Note Series 2001				94,176
Restricted Cash-				
Payroll Revolving Account	9,716			
Retirement Account	9,566			
Withholding and FICA Account	979			
Total Assets	<u>\$ 1,083,483</u>	<u>\$ 273,598</u>	<u>\$ 1,157,528</u>	<u>\$ 8,333,282</u>
<u>Other Resources</u>				
Amounts to be Provided				
In Future Years For:				
Capital Lease (Note 5)	\$	\$	\$	\$ 695,984
Bond Payments:				
1999 Refunding Bonds (Note 6 B)				7,493,295
Justice Center Series A Bonds (Note 6 C)				2,737,681
Justice Center Series B Bonds (Note 6 D)				5,384,474
Fairgrounds and Convention Center				
Bonds (Note 6 E)				2,570,000
Bond Anticipation Notes Series 2001				
(Note 6 F)				2,080,824
Total Other Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,962,258</u>
Total Assets and Other Resources	<u>\$ 1,083,483</u>	<u>\$ 273,598</u>	<u>\$ 1,157,528</u>	<u>\$ 29,295,540</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$ 67,782	\$ 3,349,980
	6,328,275
	312,319
	810,525
	137
	94,176
	9,716
	9,566
	979
<u>\$ 67,782</u>	<u>10,915,673</u>
\$	\$ 695,984
	7,493,295
	2,737,681
	5,384,474
	2,570,000
	<u>2,080,824</u>
<u>\$ 0</u>	<u>20,962,258</u>
<u>\$ 67,782</u>	<u>31,877,931</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease (Note 5)	\$	\$	\$	\$ 695,984
Bonds:				
Refinanced Bonds:				
Solid Waste Refunding Bonds (Note 6A2)				1,915,000
Detention Center Bonds (Note 6A3)				4,205,000
1999 Refunding Bonds (Note 6B)				8,280,000
Justice Center Series A Bonds (Note 6C)				3,050,000
Justice Center Series B Bonds (Note 6D)				6,195,000
Fairgrounds and Convention Center Bonds (Note 6E)				2,570,000
Bond Anticipation Notes Series 2001 (Note 6F)				2,175,000
Payroll Revolving Account	9,716			
Retirement Account	9,566			
Withholding and FICA Account	979			
Total Liabilities	\$ 20,261	\$ 0	\$ 0	\$ 29,085,984
<u>Equity</u>				
Fund Balances:				
Reserved	\$ 241,382	\$ 105,691	\$ 1,157,528	\$ 209,556
Unreserved	821,840			
Total Equity	\$ 1,063,222	\$ 105,691	\$ 1,157,528	\$ 209,556
Total Liabilities and Equity	\$ 1,083,483	\$ 105,691	\$ 1,157,528	\$ 29,295,540

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 695,984
	1,915,000
	4,205,000
	8,280,000
	3,050,000
	6,195,000
	2,570,000
	2,175,000
	9,716
	9,566
	979
<u>\$ 0</u>	<u>29,106,245</u>
 \$ 67,782	 \$ 1,949,846
	821,840
<u>\$ 67,782</u>	<u>\$ 2,771,686</u>
<u>\$ 67,782</u>	<u>\$ 31,877,931</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

FLOYD COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 15,773,691	\$ 5,243,103	\$ 1,324,404	\$ 883,583
Other Financing Sources:				
Receipts - Jail Canteen	14,649			
Transfers In	5,556,898	162,352	191,029	781,983
Bond Proceeds	2,001,147			
Good Faith Deposit	43,524			
Capitalized Interest	119,478			
Lease-Purchase Proceeds	249,000			
Total Cash Receipts	<u>\$ 23,758,387</u>	<u>\$ 5,405,455</u>	<u>\$ 1,515,433</u>	<u>\$ 1,665,566</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 15,728,326	\$ 4,301,129	\$ 1,500,609	\$ 1,320,765
Other Financing Uses:				
Expenditures - Jail Canteen	12,939			
Expenditures - Component Unit	6,475			
Expenditures - Floyd County (Martin) Community Center				
Transfers Out	5,556,898	1,956,478	150,000	481,870
Capital Lease Principal	34,096	34,096		
Bonds:				
Principal Paid	1,325,000			
Interest Paid	1,576,177			
Fees	30,402			
Total Cash Disbursements	<u>\$ 25,034,275</u>	<u>\$ 6,291,703</u>	<u>\$ 1,650,609</u>	<u>\$ 1,802,635</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (1,275,888)	\$ (886,248)	\$ (135,176)	\$ (137,069)
Cash Balance - July 1, 2001	<u>12,171,300</u>	<u>1,696,790</u>	<u>135,485</u>	<u>148,058</u>
Cash Balance - June 30, 2002	<u>\$ 10,895,412</u>	<u>\$ 810,542</u>	<u>\$ 309</u>	<u>\$ 10,989</u>

\*\*Prior year balance was adjusted for voided checks.

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	E-911 Fund	Revolving Loan Fund	Floyd County (Martin) Community Center
\$ 5,304,873	\$ 20,007	\$ 1,531,220	\$ 236,309	\$ 288	\$
600,000			15,000		931,869
249,000					
\$ 6,153,873	\$ 20,007	\$ 1,531,220	\$ 251,309	\$ 288	\$ 931,869
\$ 6,002,320	\$ 19,907	\$ 1,516,964	\$ 204,653	\$	
948,869					763,962
\$ 6,951,189	\$ 19,907	\$ 1,516,964	\$ 204,653	\$ 0	\$ 763,962
\$ (797,316)	\$ 100	\$ 14,256	\$ 46,656	\$ 288	\$ 167,907
1,038,698	36	7,333	23,465	13,557	
\$ 241,382	\$ 136	\$ 21,589	\$ 70,121	\$ 13,845	\$ 167,907

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

	Capital Projects Fund Type	Debt Service Fund Type	Enterprise Fund Type
	Bond Anticipation Note Fund	Public Properties Corporation Fund	KACO Leasing Trust Acquisition Account
			Jail Canteen Account
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 12,178	\$ 1,217,726	\$
Other Financing Sources:			
Receipts - Jail Canteen			14,649
Transfers In	2,007,329	867,336	
Bond Proceeds		2,001,147	
Good Faith Deposit		43,500	24
Capitalized Interest		119,478	
Lease-Purchase Proceeds			
Total Cash Receipts	<u>\$ 2,019,507</u>	<u>\$ 4,249,187</u>	<u>\$ 24</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 861,979	\$	\$
Other Financing Uses:			
Expenditures - Jail Canteen			12,939
Expenditures - Component Unit			
Expenditures - Floyd County (Martin) Community Center			
Transfers Out		2,019,681	
Capital Lease Principal			
Bonds:			
Principal Paid		1,325,000	
Interest Paid		1,576,177	
Fees		30,402	
Total Cash Disbursements	<u>\$ 861,979</u>	<u>\$ 4,951,260</u>	<u>\$ 0</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,157,528	\$ (702,073)	\$ 24
Cash Balance - July 1, 2001	<u>9,034,210</u>	<u>1,121</u>	<u>66,072</u>
Cash Balance - June 30, 2002	<u>\$ 1,157,528</u>	<u>\$ 8,332,137</u>	<u>\$ 1,145</u>
			<u>\$ 67,782</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

Component Unit
Floyd County Solid Waste Incorporated
\$
\$ 0
\$
6,475
\$ 6,475
\$ (6,475)
6,475
\$ 0

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STATEMENT OF CASH  
FLows-PROPRIETARY FUND TYPE





FLOYD COUNTY  
STATEMENT OF CASH  
FLows-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 13,663
Payments to Suppliers	<u>(12,939)</u>
Net Cash Provided By Operating Activities	<u>\$ 724</u>
Cash Flows From Investing Activities:	
Interest Received on Bank Accounts	<u>\$ 986</u>
Net Cash Provided by Investing Activities	<u>\$ 986</u>
Net Increase in Cash and Cash Equivalents	\$ 1,710
Cash and Cash Equivalents - Beginning	<u>\$ 66,072</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 67,782</u></u>

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Floyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Floyd County Solid Waste Incorporated, the Floyd County (Martin) Community Center, Incorporated, and the Public Properties Corporation Fund as part of the reporting entity.

Floyd County Solid Waste Incorporated (the Corporation) is a legally separate entity established to monitor garbage disposal services in Floyd County. The Fiscal Court appoints all of the Corporation's board members and is financially accountable for the Corporation. This financial accountability requires management to include the Corporation as a component unit. The Corporation is not included in any other organization's reporting entity and provides services exclusively to the Fiscal Court; therefore the financial activity of the corporation is discretely presented in the financial statements.

The Floyd County (Martin) Community Center, Incorporated (the Center) is a legally separate entity created to oversee the operations of the Floyd County Community Center located in Martin, Kentucky. The Fiscal Court appoints all of the Center's board members and is able to impose its will on the Center, therefore the financial activities of the Center is blended with that of the Fiscal Court.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Floyd County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Floyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Floyd County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Floyd County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Floyd County Special Revenue Fund Type includes the following county funds: State Grants Fund, Federal Grants Fund, E-911 Fund, Revolving Loan Fund, Construction Fund, the Local Government Economic Development Fund, and the Floyd County (Martin) Community Center.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes KACO Leasing Trust Acquisition Account and the Public Properties Corporation Fund. The KACO Leasing Trust Acquisition Account includes operating lease proceeds from the Kentucky Association of Counties Leasing Trust Program for the construction of additional office space at the Big Sandy ADD building. The Public Properties Corporation Fund debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year. Receipts include annual lease payments from the AOC for rental of the Floyd County Justice Center. Receipts also include bond principal and interest payments from the East Kentucky Utilities Gas System for a portion of the 1999 Revenue Refunding Bonds.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Bond Anticipation Note Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Floyd County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

During the fiscal year ended June 30, 2002, the Floyd County Jail Canteen received \$14,649 and expended \$12,939, resulting in net income of \$1,710.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

D. Legal Compliance - Budget

The Floyd County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Debt Service Fund Type because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund type to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Floyd County Fiscal Court: Floyd County Housing Authority, Southern Water and Sewer District, Sandy Valley Water District Commission, Floyd County Flood Plain Appeals Board, Floyd County Cooperative Extension Board, and the Floyd Service Project, Inc.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 2. Employee Retirement System (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Lease-Purchase Agreement

On May 8, 1994, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for voting machines. The principal amount of the lease was \$206,000. The agreement requires variable monthly payments for 120 months to be paid in full March 20, 2004. The principal balance of the agreement was \$48,000 as of June 30, 2002.

Note 5. Capital Lease Agreements

- A. On July 22, 1999, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$60,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 7 years to be paid in full August 20, 2006. The principal balance of the agreement was \$37,984 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 1,905	\$ 8,472
2004	1,421	8,866
2005	917	9,277
2006	388	9,708
2007	12	1,661
Totals	<u>\$ 4,643</u>	<u>\$ 37,984</u>

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Capital Lease Agreements (Continued)

B. On October 16, 1992, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$850,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 25 years to be paid in full January 20, 2018. The principal balance of the agreement was \$658,000 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 34,840	\$ 27,000
2004	33,341	29,000
2005	31,756	30,000
2006	30,095	32,000
2007	28,326	34,000
2008-2012	111,981	195,000
2013-2017	52,415	252,000
2018	1,854	59,000
Totals	<u>\$ 324,608</u>	<u>\$ 658,000</u>

Note 6. Long-Term Debt

A. Refinanced Bonds

The Following three bond issuances were refinanced from the proceeds of the 1999 Revenue Refunding bonds detailed at Note 6B.

- 1) In March 1991, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$620,000 in First Mortgage Revenue Bonds for the East Kentucky Utilities Gas System. These bonds were originally scheduled to mature in September 2012. The Fiscal Court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the East Kentucky Utilities Gas System bond payment schedule was revised to reflect a maturity date of September 2001. The bond principal and interest payments were paid from the proceeds of the Floyd County Refunding Bonds Series 1999. These bonds were paid in full September 1, 2001.

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long-Term Debt (Continued)

A. Refinanced Bonds (Continued)

- 2) In March 1994, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,500,000 in Solid Waste Refunding and Improvement Revenue Bonds. These bonds were originally scheduled to mature in March 2014. The Fiscal Court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the Solid Waste bond payment schedule was revised to reflect a maturity date of March 2004. The bond principal and interest payments will be paid from the proceeds of the Floyd County Refunding Bonds Series 1999. As of June 30, 2002, the principal balance outstanding on 1994 Solid Waste Bonds was \$1,915,000. The debt service requirements to be paid from the proceeds of the Floyd County 1999 Refunding Bonds are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 136,003	\$ 105,000
2004	163,440	1,810,000
Totals	<u>\$ 299,443</u>	<u>\$ 1,915,000</u>

- 3) In March 1994, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$5,930,000 in First Mortgage Revenue Bonds for the Floyd County Detention Facility Project. These bonds were originally scheduled to mature in March 2019. The Fiscal Court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the Detention Center bond payment schedule was revised to reflect a maturity date of March 2004. The bond principal and interest payments will be paid from the proceeds of the Floyd County Refunding Bonds Series 1999. As of June 30, 2002, the principal balance outstanding on 1994 Detention Center Bonds was \$4,205,000. The debt service requirements to be paid from the proceeds of the Floyd County 1999 Refunding Bonds are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 300,428	\$ 165,000
2004	367,415	4,040,000
Totals	<u>\$ 667,843</u>	<u>\$ 4,205,000</u>



FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long-Term Debt (Continued)

B. In April 1999, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,445,000 in General Obligation Refunding Bonds, Series 1999. The proceeds from these refunding bonds will be used to refinance the 1991 East Kentucky Utilities Gas Systems Bonds, the 1994 Solid Waste Refunding and Improvement Revenue Bonds, and the 1994 Detention Facility First Mortgage Revenue Bonds. These bonds are scheduled to mature in 2019 and carry an interest rate of 4.35 to 4.4%. Semiannual interest payments are required in September and March. As of June 30, 2002, the principal balance outstanding on these bonds was \$8,280,000. Debt service requirements for fiscal years ending June 30, 2003 and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 362,821	\$ 405,000
2004	345,204	425,000
2005	326,716	445,000
2006	307,359	465,000
2007	287,131	485,000
2008-2012	1,099,263	2,755,000
2013-2017	484,880	2,420,000
2018-2019	58,520	880,000
Totals	<u>\$ 3,271,894</u>	<u>\$ 8,280,000</u>

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long Term Debt (Continued)

- C. In December 1995, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$3,310,000 in First Mortgage Revenue Bonds Series A for phase 1 of the Court Facility Project. Semiannual principal and interest payments are required in September and March.

The Floyd County Public Properties is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Justice Center. The Floyd County Public Properties Corporation expects annual rentals for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, The Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Floyd County Public Properties Corporation is in reliance upon the use of allowance payment in order to meet the debt service for the bonds.

The Administrative Office of the Courts with the execution of the lease has expressed its intention to continue to pay the full allowance payment in each successive biennial budget period until September 2023, but the lease does not legally obligate the Administrative Office of the Courts to do so.

As of June 30, 2002, the principal balance on these bonds was \$3,050,000. Debt service requirements for fiscal years ending June 30, 2003 and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 166,317	\$ 75,000
2004	162,193	75,000
2005	157,930	80,000
2006	153,392	85,000
2007	148,580	90,000
2008-2012	661,087	525,000
2013-2017	494,713	695,000
2018-2022	270,244	950,000
2023-2024	26,779	475,000
Totals	<u>\$ 2,241,235</u>	<u>\$ 3,050,000</u>

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long Term Debt (Continued)

- D. In June 1996, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$6,525,000 in First Mortgage Revenue Bonds Series B for phase 2 of the Court Facility Project. As stated in Note 6C, the Administrative Office of the Courts makes lease rental payments directly to the paying agent bank in the amount of annual bond principal and interest payments. As of June 30, 2002, the principal balance on these bonds was \$6,195,000. Debt service requirements for fiscal years ending June 30, 2003 and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 373,042	\$ 95,000
2004	367,680	100,000
2005	362,043	105,000
2006	356,130	110,000
2007	349,805	120,000
2008-2012	1,637,407	710,000
2013-2017	1,392,560	950,000
2018-2022	1,056,447	1,250,000
2023-2026	477,245	2,755,000
Totals	<u>\$ 6,372,359</u>	<u>\$ 6,195,000</u>

- E. In May 1999, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,700,000 in General Obligation Public Project Bonds to refinance the 1993 Bond Anticipation Notes for the Thunder Ridge Fairgrounds and Convention Center. The bonds carry an interest rate of 4.85% and are scheduled to mature in July 2019. Semiannual interest payments are required in July and January. The facility has been leased to Appalachian Racing for an amount equal to the annual debt service requirements. As of June 30, 2002, the principal balance outstanding on these bonds was \$2,570,000. Debt service requirements for fiscal years ending June 30, 2003 and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 122,947	\$ 70,000
2004	119,431	75,000
2005	115,673	80,000
2006	111,429	95,000
2007	106,700	100,000
2008-2012	444,866	665,000
2013-2017	259,960	860,000
2018-2020	46,439	625,000
Totals	<u>\$ 1,327,445</u>	<u>\$ 2,570,000</u>

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 6. Long Term Debt (Continued)

- F. In October 2001, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,175,000 in First Mortgage Revenue Bond Anticipation Notes, Series 2001. The proceeds from these notes will be used for a waterline construction project. These notes are scheduled to mature in October 2003 and carry an interest rate of 4.25%. Semiannual interest payments are required in April and October and the principal amount is due in October 2003. As of June 30, 2002, the principal balance outstanding on these bond anticipation notes was \$2,175,000. Debt service requirements for fiscal years ending June 30, 2003 and thereafter are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 92,438	\$ 0
2004	46,219	2,175,000
Totals	<u>\$ 138,657</u>	<u>\$ 2,175,000</u>

Note 7. Related Party Transactions

During fiscal year 2002, the county spent \$6,983 for parts and services at Layne Brother's Ford-Lincoln-Mercury-Honda and Ford Trucks. The County Treasurer's father is co-owner and the Treasurer is also an employee at this dealership. We recommend the Floyd County Ethics Committee review these transactions for propriety.

Note 8. Insurance

For the fiscal year ended June 30, 2002, Floyd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Contingency

The Natural Resources and Environmental Protection Cabinet (the Cabinet) filed an Administrative Complaint against Floyd County Fiscal Court on May 29, 2001, for failure to comply with regulations related to landfill operations. The cabinet and Floyd County are currently engaged in settlement discussions related to the Administrative Complaint. It is likely that the Administrative Complaint will result in a liability for Floyd County. At this time the amount of the liability cannot reasonably be determined.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



FLOYD COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 7,141,500	\$ 5,243,103	\$ (1,898,397)
Road and Bridge Fund	1,348,568	1,324,404	(24,164)
Jail Fund	950,000	883,583	(66,417)
Local Government Economic Assistance Fund	6,630,485	5,304,873	(1,325,612)
<u>Special Revenue Fund Type</u>			
State Grants Fund	32,356	20,007	(12,349)
Federal Grants Fund	3,929,448	1,531,220	(2,398,228)
E-911 Fund	217,622	236,309	18,687
Revolving Loan Fund		288	288
Construction Fund	500		(500)
Local Government Economic Development Fund	1,100,500		(1,100,500)
<u>Capital Projects Fund Type</u>			
Bond Anticipation Note Fund	<u>2,001,147</u>	<u>12,178</u>	<u>(1,988,969)</u>
Totals	<u>\$ 23,352,126</u>	<u>\$ 14,555,965</u>	<u>\$ (8,796,161)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 23,352,126
Add: Budgeted Prior Year Surplus			2,033,430
Add: Other Financing Sources			1,523,920
Less: Other Financing Uses			<u>(902,632)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 26,006,844</u>

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SCHEDULE OF OPERATING REVENUE



FLOYD COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 2,168,969	\$ 1,934,133	\$ 234,836	\$	\$
In Lieu Tax Payments	38,481	38,481			
Excess Fees	100,936	100,936			
Licenses and Permits	17,482	17,482			
Intergovernmental Revenues	10,096,089	8,546,595	1,549,494		
Charges for Services	1,424,195	1,424,195			
Miscellaneous Revenues	1,319,119	586,453	733		731,933
Interest Earned	608,420	107,688	2,761	12,178	485,793
Total Operating Revenue	<u>\$ 15,773,691</u>	<u>\$ 12,755,963</u>	<u>\$ 1,787,824</u>	<u>\$ 12,178</u>	<u>\$ 1,217,726</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



FLOYD COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,971,926	\$ 1,655,031	\$ 316,895
Protection to Persons and Property	1,167,400	1,176,168	(8,768)
General Health and Sanitation	2,852,665	2,364,494	488,171
Social Services	81,000	60,812	20,188
Recreation and Culture	471,791	55,439	416,352
Roads	6,402,371	5,845,631	556,740
Airports	3,500		3,500
Other Transportation Services and Facilities	100,000		100,000
Debt Service	88,761	87,020	1,741
Capital Projects	2,527,574	673,050	1,854,524
Administration	2,049,483	1,207,178	842,305
Total Operating Budget - General Fund Types	\$ 17,716,471	\$ 13,124,823	\$ 4,591,648
Other Financing Uses:			
Transfers to Public Properties			
Corporation Bond Fund	865,466	867,336	(1,870)
Transfers to Floyd County (Martin)			
Community Center	931,869	931,869	
Capital Lease Agreement-			
Principal on Lease	37,166	34,096	3,070
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 19,550,972</u>	<u>\$ 14,958,124</u>	<u>\$ 4,592,848</u>

FLOYD COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 30,000	\$ 18,586	\$ 11,414
Protection to Persons and Property	246,079	213,877	32,202
General Health and Sanitation	3,669,448	1,315,375	2,354,073
Social Services	30,000	24,882	5,118
Capital Projects	1,313,500	158,120	1,155,380
Administration	68,330	10,682	57,648
Total Operating Budget - Special Revenue Fund Types	<u>\$ 5,357,357</u>	<u>\$ 1,741,522</u>	<u>\$ 3,615,835</u>
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u><u>\$ 5,357,357</u></u>	<u><u>\$ 1,741,522</u></u>	<u><u>\$ 3,615,835</u></u>
CAPITAL PROJECTS FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	<u>\$ 2,001,147</u>	<u>\$ 861,979</u>	<u>\$ 1,139,168</u>
Total Operating Budget - Capital Projects Fund Types	<u>\$ 2,001,147</u>	<u>\$ 861,979</u>	<u>\$ 1,139,168</u>
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u><u>\$ 2,001,147</u></u>	<u><u>\$ 861,979</u></u>	<u><u>\$ 1,139,168</u></u>



SCHEDULE OF FLOYD COUNTY (MARTIN) COMMUNITY CENTER EXPENDITURES



FLOYD COUNTY  
SCHEDULE OF FLOYD COUNTY (MARTIN) COMMUNITY CENTER EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Floyd County (Martin) Community Center</u>	
Operating Expenses-		
Office Supplies	\$ 9,316	
Printing Expenses	125	
Utilities	7,396	
Rent	10,380	
Maintenance	800	
Payments to Board Members	26,553	
Travel Expenses	7,578	
Internet Services	348	
Miscellaneous	<u>24,625</u>	\$ 87,121
Personnel Services-		
Payroll	\$ 183,257	
Insurance	<u>34,400</u>	217,657
Capital Outlay-		
Construction	\$ 414,098	
Office Furniture and Computers	16,304	
Bleachers	<u>28,782</u>	<u>459,184</u>
Totals		<u><u>\$ 763,962</u></u>

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SCHEDULE OF COMPONENT UNIT EXPENDITURES



FLOYD COUNTY  
SCHEDULE OF COMPONENT UNIT EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Floyd County Solid Waste Incorporated</u>
Payments To Floyd County Fiscal Court	<u>\$ 6,475</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Paul H. Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of Financial**  
**Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Floyd County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Floyd County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Floyd County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Floyd County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Fiscal Court Should Have Required The Floyd County (Martin) Community Center To Submit Monthly Financial Statements And An Annual Financial Statement
- The Floyd County (Martin) Community Center Should Not Have Paid Bonuses

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 21, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Paul H. Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Floyd County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Floyd County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Floyd County's management. Our responsibility is to express an opinion on Floyd County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Floyd County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Floyd County's compliance with those requirements.

In our opinion, Floyd County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Floyd County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Floyd County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 21, 2003



SCHEDULE OF FINDINGS AND QUESTIONED COSTS



FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Floyd County.
2. Two reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report. None of the conditions are reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Floyd County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Floyd County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Floyd County reported in Part C of this schedule.
7. The program tested as a major program was: U.S. Office of Surface Mining through the Kentucky Natural Resources and Environmental Protection Cabinet Division of Abandoned Mine Lands (CFDA #15.252)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Floyd County was determined to be a low-risk auditee.

B. FINDINGS -

NONCOMPLIANCES

None.

REPORTABLE CONDITIONS

1. The Fiscal Court Should Require The Floyd County (Martin) Community Center To Submit Monthly Financial Reports And An Annual Financial Statement

The Floyd County (Martin) Community Center (the Center), a component unit of the Floyd County Fiscal Court, did not prepare monthly financial reports or present an annual financial statement to the fiscal court during fiscal year 2001-2002. Because the fiscal court provides the Center with funding, monthly monitoring should have been established in order to oversee the Center's financial activities. As the Center's oversight agency, the fiscal court should have required the community center to present monthly financial reports and an annual financial statement. However, the fiscal court is currently in the process of dissolving the Center's board and has leased the Center's building to the city of Martin.

*County Judge/Executive Paul H. Thompson's Response:*

*The fiscal court and the County Judge/Executive will exercise more oversight on boards it appoints in the future.*

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

B. FINDINGS - (Continued)

REPORTABLE CONDITIONS (Continued)

2. The Floyd County (Martin) Community Center Should Not Have Paid Bonuses

In December 2001, the Floyd County (Martin) Community Center Board (the Board), a component unit of the Floyd County Fiscal Court approved and issued \$300 Christmas bonuses to eight employees, five board members, and the Board's attorney totaling \$4,200. These bonuses came to the auditor's attention during our examination of the Center's expenditures. These transactions were not handled correctly. We noted that the proper withholdings were not deducted nor were they reported properly. As of the date of this audit, the five Board members and the Board's attorney have repaid Christmas bonuses to the Center's official bank account. The Floyd County Fiscal Court is in the process of dissolving the Board and has leased the Community Center building to the City of Martin.

*County Judge/Executive Paul H. Thompson's Response:*

*The fiscal court and the County Judge/Executive will exercise more oversight on boards it appoints in the future.*

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



FLOYD COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Wheelright Emergency Shelter Grant Program (CFDA #14.231)	Not Available	\$ 24,882
Passed-Through Kentucky Housing Corporation:		
Kentucky Housing and Kentucky Tech (CFDA #14.239 )	Not Available	158,119
<u>U.S. Appalachian Regional Commission</u>		
Passed-Through State Department for Local Government:		
Appalachian Regional Commission Grants- Aquaponics (CFDA #23.002)	00-AI203	42,462
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs - (CFDA #15.252)	GR107210	683,728
<u>U.S. Department of Commerce</u>		
Passed-Through National Oceanic and Atmospheric Administration:		
Pride Community Grant (CFDA #11.469 )	CF99-08 through CF99-14	589,184
<u>U.S. Department of Defense</u>		
Passed-Through U.S. Army Corps of Engineers:		
Law Enforcement Contract (CFDA #Not Available)	Not Available	<u>18,586</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,516,961</u>

FLOYD COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.



CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

FLOYD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002



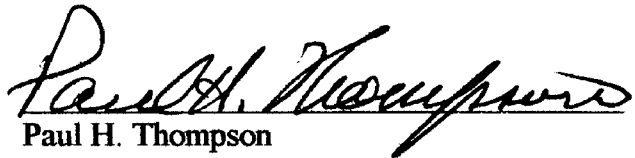
**CERTIFICATION OF COMPLIANCE**

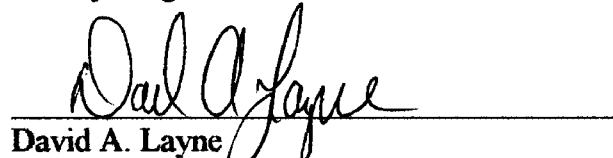
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**FLOYD COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Floyd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Paul H. Thompson  
County Judge/Executive

  
David A. Layne  
County Treasurer